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**BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554**

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

In the Matter of

**Changes to the Board of
Directors of the National Exchange
Carrier Association, Inc.**

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CC Docket No. 97-21

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REPLY COMMENTS OF SOUTHWESTERN BELL TELEPHONE COMPANY

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February 3, 1997

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SUMMARY*

NECA's recent proposal to establish USAC as a wholly owned subsidiary addresses certain commenters' concerns with NECA's original proposal to add six non-ILEC directors to its Board. The USAC proposal also satisfies the Commission's "significant, meaningful representation" criteria for the temporary administrator. Even some non-ILECs agree that the new proposal could resolve their concerns about the impartiality of the temporary administrator.

The Commission needs to assure that the structure of USAC's Board is balanced and representative of the interests of the telecommunications industry and the recipients of universal service program services. Also, the Commission should provide guidance concerning the parent-subsidiary relationship between NECA and USAC and the procedures for election of USAC's balanced, representative Board. The guiding principle should be that USAC have complete, independent control of its own day-to-day operations and policies.

In contending that NECA does not have "expertise of any importance in administering the new fund," MCI forgets that NECA is responsible for administering interstate access charge pools, the Lifeline Assistance program, the current universal service fund and the Telecommunications Relay Services ("TRS") fund. As TRS fund administrator, NECA has proven that it can successfully go beyond its traditional role as pool administrator.

Appointment of USAC as temporary administrator would be an effective utilization of the specialized, industry knowledge and valuable resources that NECA has developed to the benefit

* The abbreviations used in this Summary are the same as those used in the text of the Reply Comments.

of the industry and the public at large. It would also enable the Commission to meet the accelerated schedule for initiating support for schools, libraries and health care providers.

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| Carrier Association, Inc. |) | |

REPLY COMMENTS OF SOUTHWESTERN BELL TELEPHONE COMPANY

Southwestern Bell Telephone Company ("SWBT") hereby submits its Reply Comments in response to Comments filed on January 27, 1997 pursuant to the Commission's Notice of Proposed Rulemaking ("NPRM")¹ in the above-captioned proceeding.

I. NECA's FORMATION OF A WHOLLY OWNED SUBSIDIARY.

A recurring theme in most of the Comments of those opposed to NECA's appointment as interim administrator is that NECA's original October 18, 1996 proposal to add six non-incumbent local exchange carrier ("ILEC") directors falls short of the goal to add significant, meaningful representation of non-ILEC interests to its Board of Directors.² One commenter reasons, for example, that "the remaining 10 ILEC directors plus the five ILEC-selected 'non-ILEC' directors would continue to hold more than a two-thirds majority on the Board."³

NECA's recent proposal to create a wholly owned subsidiary, as described in its Comments,⁴ addresses the concerns of these commenters as well as the Commission's

¹ FCC 97-11, adopted and released January 10, 1997.

² AT&T at 4; MCI at 2; NCTA at 6; WorldCom at 6.

³ NCTA at 6.

⁴ NECA at 5.

“significant, meaningful representation” criteria for the temporary administrator. NECA’s revised proposal is that, if it is named the temporary administrator, it would establish a wholly owned subsidiary, which it refers to as a “universal service administrative company” (“USAC”), to perform all of the duties of the temporary administrator. Under NECA’s proposal, [t]he USAC would have a “balanced, representative board that would be based on Commission recommendations.”⁵ Further, NECA, not the USAC, would be responsible for access charge tariffs and pool revenue distribution. NECA’s creation of USAC as a separate, wholly owned subsidiary, with a balanced, representative Board of its own, would satisfy the minimum changes necessary for appointment as the temporary administrator.

Other commenters agree that NECA’s latest proposal alleviates concerns about the impartiality of the temporary administrator.⁶ Even some non-ILECs, such as NCTA, PCIA and Sprint, indicate that NECA’s new proposal could satisfy the Commission’s criteria for temporary administrator.⁷ For example, PCIA states that “the revised NECA proposal . . . could resolve many of the concerns it has with the proposal reflected in the Notice.”⁸

In view of the neutrality that is achievable through a separate corporate entity, the Commission should permit NECA to establish USAC as a wholly owned subsidiary to serve as temporary administrator.

⁵ Id.

⁶ Bell Atlantic/NYNEX at 3; PacTel at 3; US West at 2.

⁷ NCTA at 7-8; PCIA at 8; Sprint at 2.

⁸ PCIA at 8.

II. STRUCTURE AND OPERATION OF THE USAC BOARD.

Consistent with the suggestions of several commenters,⁹ the Commission also needs to assure that the structure of USAC's Board is balanced and representative of the interests of the telecommunications industry and the recipients of universal service program services. Specific plans offered by commenters differ in terms of the size of the Board and its composition. SWBT agrees that the Commission should structure the USAC Board so that representatives from appropriate segments of the industry are included as well as representatives of the beneficiaries of the universal service support programs. The USAC Board should be clearly responsible for the USAC subsidiary operations and should have full control over the administration of the new universal service programs.

The NPRM requested comments on the authority of the six new non-ILEC directors that NECA would have added to its Board under its original proposal.¹⁰ The NPRM indicated that it appeared to be necessary to limit the authority of these six directors to the temporary administrator and general Board oversight functions.¹¹ SWBT and other commenters found the suggested limitation of authority to be unclear.¹² Establishing USAC as a wholly owned subsidiary substantially clarifies the issue of the limitation of these directors' authority because

⁹ AT&T at 5; American Library Association ("ALA") at 4-5; MCI at 3; NCTA at 7-8; PCIA at 6; WorldCom at 6.

¹⁰ NPRM ¶13.

¹¹ Id.

¹² Ameritech at 6; ALA at 4-5; PCIA at 6; SWBT at 3.

the USAC Board's authority would be limited to its temporary administrator functions and the corporate governance of the USAC subsidiary.

SWBT does believe that the Commission should provide guidance concerning the parent-subsidiary relationship between NECA and USAC and the procedures for election of USAC's balanced, representative Board. The guiding principle should be that USAC have complete, independent control of its own day-to-day operations and policies.¹³ Commission guidelines for the operation of the USAC Board and its relationship to the NECA Board are necessary to ensure efficient, fair and competitively neutral operation of the new universal service programs.

III. NECA'S VALUABLE EXPERIENCE, EXPERTISE AND RESOURCES.

MCI claims that because "the new universal service fund for schools, libraries and health care providers is not based on LEC costs, . . . NECA will have no expertise of any importance in administering the new fund."¹⁴ MCI forgets that NECA is responsible for administering interstate access charge pools, the Lifeline Assistance program, the current universal service fund and the Telecommunications Relay Services ("TRS") fund. As TRS fund administrator, NECA has proven that it can successfully go beyond its traditional role as pool administrator.

The Commission appointed NECA as the TRS fund administrator in 1993, and has reappointed it as the TRS Fund administrator through July, 1999. As TRS fund administrator,

¹³ While USAC would be an independent affiliate of NECA, USAC would have access to NECA's expertise, resources and support services through arm's-length contractual arrangements established in compliance with NECA's Cost Allocation Manual, subject to Commission approval and audit. See NECA at 5-6 & n.12.

¹⁴ MCI at 2.

NECA is responsible for gathering revenue data and TRS fund contributions from over 2,800 interstate telecommunications providers. NECA is also responsible for distributing funds to TRS providers. These providers are a diverse group, which include large interexchange carriers, large and small local exchange carriers, and not-for-profit and for-profit associations. Each year, NECA must file with the Commission proposed payment formulas and estimated fund requirements for the following year. All statements of the TRS fund are audited each year by independent certified public accountants. These statements include assets, liabilities and changes in fund balance and cash flow. The auditors have concluded that the statements accurately reflect operations and that they conform with generally accepted accounting principles. Through its role as TRS fund administrator, NECA has proven that it can successfully represent many segments of the telecommunications industry.

In its administration of the various support mechanisms, NECA has developed specialized, industry knowledge and efficient resources to perform the required administrative functions. Appointment of USAC as temporary administrator would be an effective utilization of these valuable resources and expertise to the benefit of the industry and the public at large. By sharing NECA's experience in effective administration and processes, USAC could quickly develop and put in place administrative procedures to implement new universal service programs for the benefit of schools, libraries and health care providers.

In view of the accelerated schedule for initiating support for schools, libraries and health care providers, an interim administrator needs to be selected very quickly. Through its parent

company, USAC would have access to the experience, resources and background necessary for such a responsibility. Thus, it would be able to meet that accelerated schedule.

IV. CONCLUSION.

For the reasons stated above, the Commission should proceed as soon as possible to permit NECA to establish USAC as a wholly owned subsidiary with a balanced, representative Board governed by Commission-approved corporate procedures. In this manner, USAC will be able to serve as temporary administrator and take the rapid action necessary to launch the new universal service programs in a timely manner.

Respectfully submitted,

SOUTHWESTERN BELL TELEPHONE COMPANY

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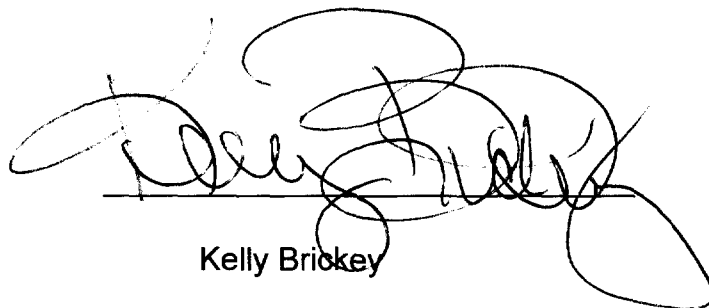
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February 3, 1997

CERTIFICATE OF SERVICE

I, Kelly Brickey, hereby certify that the foregoing "Reply Comments of Southwestern Bell Telephone Company.", has been served February 3, 1997, to the Parties of Record.



A handwritten signature in black ink, appearing to read 'Kelly Brickey', is written over a horizontal line. The signature is stylized with large loops and flourishes.

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